20.08 Interfund Transactions

There are **four** different **types** of **cash transfers** that may take place between different funds:

- Operating transfers
- Quasi-external transactions
- Reimbursements
- Loans

Operating Transfers

Operating transfers, also called **interfund transfers** are the most common, and represent movements of cash from one fund to finance current period activities in another fund. It also includes establishing or closing out a fund. To distinguish them from ordinary revenues and expenditures/expenses, they are classified as **other changes**.

- The transferee reports the amount received as:
  - **Other financing sources** if using modified accrual accounting
  - **Other revenues** if using accrual accounting
- The transferor reports the amount paid as **other financing uses** if using modified accrual accounting and as **other expenses** if using accrual accounting. These accounts appear on the appropriate operating statements: statement of revenues, expenditures, and other changes or statement of revenues, expenses, and other changes.

If $100 is sent from the general fund to the debt service fund to help finance interest payments that must be made that year, the entry in the **general fund** is:

Other financial uses	100	
Cash		100

The entry in the **debt service fund** is:

Cash	100	
Other financial sources		100

Quasi-External Transactions

Quasi-external transactions are payments from one fund to another for services or goods that are being provided. These are reciprocal transactions, involving an earnings process, unlike the previous examples of operating and residual equity transfers, in which a transfer is made without any benefit received by the transferor.

- The transferee is receiving money that represents earned **revenue.**
- The transferor reports the payment as an:
  - **Expenditure** if it uses modified accrual accounting
  - **Expense** if it uses accrual accounting

Assume the town has a water utility enterprise fund whose customers include, along with the citizens of the town, the other departments of the government. If a bill of $300 is paid by the capital projects fund for water used in the current year, the entry in the **capital projects fund** is:

Expenditures – utilities	300	
Cash		300

The entry in the **enterprise fund** is:

Cash	300	
Revenues		300

Notice that this type of transaction could easily have taken place between unrelated entities in a normal supplier/customer relationship, and that is the reason for identifying these as quasi-external transactions.

Reimbursements

Reimbursements are repayments from one fund to another for costs paid earlier on its behalf.

- The transferee will record the receipt of money as either a settlement of a **receivable** it recorded when making the payment or as a reduction of an earlier **expenditure** or **expense** it recorded.
- The transferor records the payment of money as the settlement of a **payable** it recorded when the other fund paid costs on its behalf or as its own **expenditure** or **expense**.

Assume the general fund paid $900 for 9 government employees to attend a conference, including 4 employees of the general fund itself and 5 employees of the internal service fund. The internal service fund later reimbursed the general fund $500 for its employees.

At the time of payment for the conference, the **general fund,** if it were **not** aware it was going to later be reimbursed, would have recorded:

Expenditures – conference	900	
Cash		900

When the **internal service fund** later reimbursed the general fund, it would then have recorded:

Expenses – conference	500	
Cash		500

This would have reduced the net expenditure of the **general fund**:

Cash	500	
Expenditures – conference		500

On the other hand, if both funds knew at the time of the conference that the general fund would later be reimbursed, the entry in the **general fund** for its payment would have been:

Expenditures - conference	400	
Due from internal service fund	500	
Cash		900

At the same time, the **internal service fund** would have recorded:

Expenses – conference	500	
Due to general fund		500

The later reimbursement would settle the due to/due from accounts.

Loans

Loans are temporary transfers between funds that are to be repaid later. They are handled through interfund **receivable** and **payable** accounts.

For example, if the enterprise fund lends $400 to the special revenue fund, the entry in the **enterprise fund** is:

Due from special revenue fund	400	
Cash		400

The entry in the **special revenue** fund is:

Cash	400	
Due to enterprise fund		400

Of course, the later repayment involves both funds making the exact opposite entries from the original loan entries.

Transfers are reported on the government-wide statement of activities. For transfers to be reported, they must be between governmental activities and business-type activities. Two kinds of transfers that are reported include:

- Permanent transfers
- Recurring transfers from either governmental activities to business-type activities, or vice-versa

Permanent transfers are made once, while the recurring transfers are typically made annually. A reimbursement would not be included, but a quasi-external would.